

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 27 – HB 138

April 6, 2015

SUMMARY OF ORIGINAL BILL: Creates the “Individualized Education Act”. Authorizes parents or guardians of special education students to receive payments into their child’s Individual Education Account (IEA) in order to enroll their child in a participating non-public school. The maximum amount of funding that a student may be eligible for is the amount of state and local required Basic Education Program (BEP) funding. Sets forth eligibility requirements; terminating events; and how such funding may be used. Sets forth the duties of the Department of Education (DOE) in administering the program. The DOE may collect an administrative fee equal to three percent of the total appropriations used to fund IEAs for expenditures related to administration of the program. For the purposes of enrollment, participating students shall continue to be counted in the enrollment data for their home local education agency (LEA).

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Revenue - \$235,000/FY15-16
Exceeds \$235,000/FY16-17 and Subsequent Years

Increase State Expenditures –
\$300,900/FY15-16
\$284,400/FY16-17 and Subsequent Years

Decrease Local Revenue –
\$2,059,000/FY15-16/Federal IDEA
Exceeds \$2,059,000/FY16-17 and Subsequent Years/
Federal IDEA

Decrease Local Expenditures –
Exceeds \$2,875,800/FY15-16 and Subsequent Years

Other Fiscal Impact – There will be annual shifts of state and local BEP funding from LEAs to the various Individual Education Accounts of participating students. An estimated \$7,599,300 will shift in FY15-16 and an amount estimated to exceed \$7,599,300 will shift in FY16-17 and subsequent years.

SUMMARY OF AMENDMENTS (004779, 005773): Amendment 004779 deletes and rewrites the bill such that the substantive changes are: (1) to revise the definition of eligible child to require an eligible student to have a disability as defined by federal statute; (2) to authorize Individual Education Account (IEA) funding to be used to purchase computer

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hardware or other technological devices approved by a doctor or physician and is used for a student's educational needs; (3) to encourage parents to seek participating schools with inclusive educational settings; (4) to require the Department of Education (DOE) to list participating schools with inclusive educational settings on its website; (5) to require the DOE to promulgate rules and regulations that allow for the return of a student to a public school; (6) to require the DOE to post a list of participating schools and other information relative to participating schools on its website; and (7) to authorize the DOE to collect a four percent administrative fee.

Amendment 005773 adds language to amendment 004779. Authorizes the DOE to apply for and accept grants from non-state sources to fund the administrative start-up costs of the IEA program. Declares the act to be null and void unless the DOE receives sufficient funding before January 1, 2016 from non-state grants to fund the DOE costs for the first two years of the program. Requires the IEA program to become operational in the 2016-2017 academic year; provided that the non-state funds are received by the DOE.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

Increase State Revenue - \$313,400/FY16-17/IEA Program

Exceeds \$313,400/FY17-18 and Subsequent Years/IEA Program

Increase State Expenditures - \$300,900/FY15-16

\$284,400/FY16-17 and Subsequent Years

Decrease Local Revenue -

Exceeds \$2,059,000/FY16-17 and Subsequent Years/Federal IDEA

Decrease Local Expenditures –

Exceeds \$2,875,800/FY16-17 and Subsequent Years

Other Fiscal Impact – To the extent that the DOE receives non-state grant funding in the amount of \$585,300 by January 1, 2016, to fund the DOE expenditures for the first two years of the IEA program, there will be an increase in state revenue of \$585,300 in FY15-16. If this non-state funding is not received, then the act is null and void and all other fiscal impacts are also null and void.

If non-state funding is received by DOE, there will be annual shifts of state and local BEP funding from LEAs to the various Individual Education Accounts of participating students. An estimated \$7,520,900 will shift in FY16-17 and an amount estimated to exceed \$7,520,800 will shift in FY17-18 and subsequent years.

Assumptions for the bill as amended:

- All succeeding fiscal impacts will be null and void unless the DOE receives the required non-state grant funding by January 1, 2016 to fund the administrative and start-up costs of the program for FY15-16 and FY16-17.
- Based on information from the DOE, the IEA program will not become operational until the FY16-17 academic year.
- If grant funding is received, the DOE will hire four new positions to manage the IEA program statewide. These positions will be necessary beginning in FY15-16 to perform required work before the program begins to function in FY16-17.
- Salary and benefits for a director are estimated to be \$93,619; one Education Consultant position is estimated to be \$84,910; one Finance position is estimated to be \$65,464; and one administrative assistant is estimated to be \$40,374.
- The recurring increase in state expenditures is estimated to be \$284,367 (\$93,619 + \$84,910 + \$65,464 + \$40,374).
- These positions will also require one-time expenses related to equipment and supplies, estimated to be \$16,500.
- The total increase in state expenditures in FY15-16 is estimated to be \$300,867 (\$284,367 + \$16,500).
- The recurring increase in state expenditures beginning in FY16-17 is estimated to be \$284,367.
- An estimated 118,202 students will be eligible to receive an IEA.
- Based on research performed by the Comptroller's Office on participation rates in other states for similar programs, it is estimated a minimum of one percent of eligible students (or 1,182) will participate annually.
- The amount of BEP per pupil expenditure that will transfer from LEAs to IEAs in FY16-17 is estimated to be \$6,628 and exceed \$6,628 in FY17-18 and subsequent fiscal years.
- The estimated total amount of funding that will be eligible for transfer to IEAs in FY16-17 is estimated to be \$7,834,296 (1,182 x \$6,628).
- The state will be eligible for a four percent fee from the total amount of funding transferring into IEA accounts annually; the amount of the DOE administrative fee revenue in FY16-17 is estimated to be \$313,372 (\$7,834,296 x 4.0%); in FY17-18 and subsequent years is estimated to exceed \$313,372.
- The amount of estimated state and local BEP funding that will transfer to IEA accounts in FY16-17 is estimated to be \$7,520,924 (\$7,834,296 - \$313,372) and to exceed this amount in FY17-18 and subsequent fiscal years.
- The cost to provide special education services varies widely by student and by LEA.
- LEAs will have a decrease in local expenditures as a result of no longer providing special education and other services to participating students. LEAs currently spend an average of \$2,433 per student above what the BEP formula requires.
- The per pupil expenditure is estimated to increase in FY15-16 and subsequent years.

- The decrease in local expenditures for services related to special education is estimated to exceed \$2,875,806 (\$2,433 x 1,182). Services include but are not limited to transportation, bus purchases, and special classroom accommodations.
- LEAs will no longer receive federal funding from the Individuals with Disabilities Act (IDEA) for participating students since participating students will no longer be a part of the LEA classroom experience.
- Based on information from the DOE, the estimated decrease in IDEA funding in FY16-17 is \$1,742 per student annually; a total estimated decrease in local revenue of \$2,059,044 (\$1,742 x 1,182).
- The extent of reduced federal funding will increase in FY17-18 and subsequent fiscal years when the program becomes operational.
- No change in the BEP funding formula.
- The DOE will post information on its website in the normal course of business without an increase in personnel or a reduction in its reversion to the General Fund.
- The DOE will promulgate rules and regulations without an increase in personnel or a reduction in its reversion to the General Fund.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Jeffrey L. Spalding, Executive Director

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